

# **Multi-Source Funding for Supportive Housing Development and Operations**



**AIDS Housing of Washington**  
[www.aidshousing.org](http://www.aidshousing.org)

# **Questions to be addressed today**

- ❑ What does housing development entail?
- ❑ Why do we use multiple sources of funding?
- ❑ What are the issues that come up in utilizing more than one funding source?
- ❑ What are the alternatives to development?
- ❑ What are the major funding sources?
- ❑ What are my ongoing responsibilities?
- ❑ How can I plan for long-term sustainability?

# Development Process Overview

- ❑ Program planning
  - Preliminary design
  - Feasibility study
- ❑ Pre-development
  - Establish development team
  - Identify and secure financing
- ❑ Pre-construction organization
  - Permitting process
  - Community notification
- ❑ Construction
- ❑ Program start-up
- ❑ Tenant rent-up
- ❑ Full operations

# **Development Team Overview**

- ❑ **Architect**

May work for project manager or directly for developer/owner

- ❑ **Project Manager/Owner's Representative**

Works for developer/owner; oversees development process

- ❑ **Developer**

Responsible for getting the project financed and completed

- ❑ **Owner**

May also be the developer, may be for-profit or nonprofit

- ❑ **Other development team members:**

Real estate/land use attorney, cost estimator, board members, property management and service provision representatives

# **Types of Development Projects**

- ❑ Supportive housing
- ❑ Independent housing
- ❑ Single population
- ❑ Mixed populations
- ❑ Dedicated facility
- ❑ Scattered-site
- ❑ Mixed-use structure

# **Types of Lenders/Funders**

- ❑ Loans - grants - credit enhancement - bonds
- ❑ Federal Government Programs
- ❑ State Housing Finance Agencies
- ❑ City/County Government Agencies
- ❑ Federal Home Loan Bank (with local bank)
- ❑ Banks and Other Lending Institutions
- ❑ Foundations - Program-Related Investment
- ❑ Public Housing Authorities

# **Developer/Owner Takes on Risks**

- ❑ There are three types of risks that lenders consider:
- ❑ **Borrower's Risk**  
agency financial status, track record, and current capacity
- ❑ **Project Risk**  
financing package, completion date, market conditions, repayment plan
- ❑ **Collateral Risk**  
How is debt secured: real estate, other security, or is it unsecured?
- ❑ The handout describes how to mitigate these risks.

# **Alternatives to Development**

- ❑ Definition: Creative methods for securing affordable housing on a long-term basis without going through a long and expensive development process.
- ❑ Sometimes called “non-development”
- ❑ Effectively integrates residents in community
- ❑ Typically quicker and less demanding
- ❑ May also be less costly due to better leveraging and economies of scale

# **Preliminary Considerations**

- ❑ How are client needs best met?
- ❑ Scattered sites vs. single site?
- ❑ Are there political implications?
- ❑ Can services be provided in creative ways?
- ❑ What do market conditions dictate?

# **Four Alternative Strategies**

- ❑ Master Leasing
- ❑ Lease Buy Down
- ❑ Project Asides
- ❑ Scattered-Site Acquisition

## **Caveats re: Non-Development**

- ❑ Assure the appropriateness of the physical design, project location & access to services
- ❑ The support service partner must be able to commit to coordinating/delivering support services for the life of housing agreements

# **Master Leasing**

- ❑ Definition: A nonprofit leases from an owner and then subleases the units to clients.
- ❑ Can be used to create both transitional and permanent housing
- ❑ If nonprofit can obtain Section 8, HOPWA or S+C subsidies, then there may be a little money to subsidize service needs of tenants
- ❑ Lease term may be long, thereby assuring ongoing availability of affordable housing

# **Lease Buy-Down**

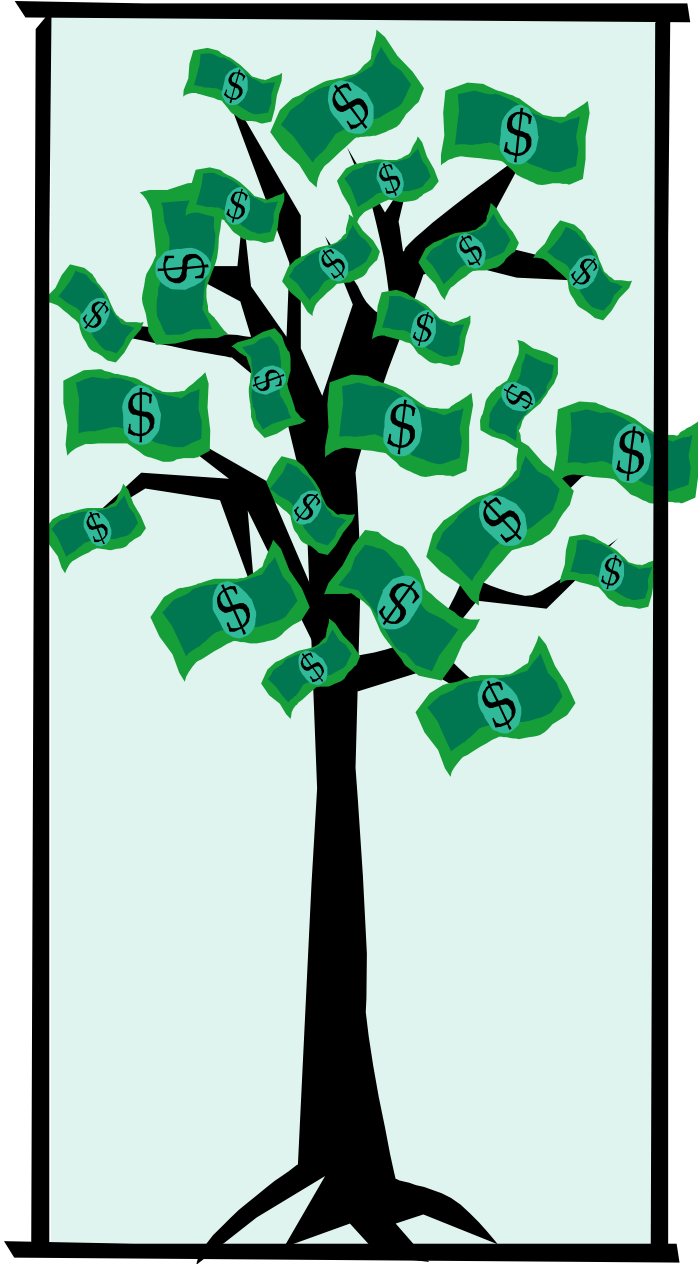
- ❑ Definition: A long-term lease agreement in which the up-front funding of a rent reserve pays the difference between market rent and the amount that tenants can afford.
- ❑ Doesn't require ongoing rent subsidies
- ❑ Capital funding may be used for rent subsidy
- ❑ Lessor must be willing to commit to a defined rent escalator amount, i.e. 3% per year
- ❑ Developing legal agreements may be time consuming, complicated, and expensive

# **Project Set Asides**

- ❑ Definition: A housing developer/owner commits to reserving a certain number of units for tenancy by a target population for a defined term.
- ❑ Creates units integrated into the community without ownership or operating responsibility
- ❑ Requires a one-time, up-front allocation of funding or monthly rent subsidy payments
- ❑ Works well with LIHTC-funded projects

# **Scattered-Site Acquisition**

- ❑ Definition: The purchase of individual or clustered condominiums or homes that are then rented to eligible households.
- ❑ Units can be purchased from existing stock or from projects in development.
- ❑ Research carefully restrictions imposed by lenders/HOA regarding ability to rent condos
- ❑ Ongoing operating subsidy may be required
- ❑ Need to plan for special assessments levied by HOA for condo improvements/repairs



# Financing Housing Development

# **Financing Options**

- ❑ Dept. of Housing and Urban Development (HUD) Consolidated Plan Programs
- ❑ McKinney-Vento Act Homeless Continuum of Care Programs
- ❑ Section 811 Program
- ❑ Section 8 Programs
- ❑ Low Income Housing Tax Credit Program
- ❑ Other sources: state and local resources, USDA Rural Housing Service, private philanthropy

# **HUD Programs**

- ❑ Consolidated Plan Programs
  - Community Development Block Grants (CDBG)
  - Emergency Shelter Grants (ESG)
  - HOME Investment Partnerships Program (HOME)
  - Housing Opportunities for Persons with AIDS (HOPWA)
- ❑ Homeless Continuum of Care Programs
  - Supportive Housing Program (SHP)
  - Shelter Plus Care (S+C)
  - SRO Moderate Rehabilitation (SRO)

# **Community Development Block Grant**

The CDBG program provides funds to nearly every community in the country. Funds may be used in various ways to support community development, and must address one of the following national objectives of the program:

- Benefit low- and moderate-income people
- Eliminate or prevent slums or blight
- Meet urgent community development needs when no other resources are available, particularly those that pose a threat to the health and welfare of the community

# **Emergency Shelter Grants**

- ❑ The ESG program provides funds to states, Metropolitan cities, urban counties, and territories for emergency shelters and transitional housing programs. Funds can be used to:
  - Improve the quality of existing emergency shelters and transitional housing.
  - Create additional emergency shelters
  - Pay for certain operating and social service expenses in connection with homeless shelters
  - Provide homeless prevention programs.

# **HOME Program**

- ❑ Block granted to states and local communities to fund permanent or transitional housing including home buyer assistance and tenant based rental assistance.
- ❑ HOME allocations are often political decisions, and many communities primarily fund home ownership programs.
- ❑ Local jurisdictions must set aside 15% of funds for development of housing through non-profit community housing development organizations (CHDO)

# **HOPWA**

- ❑ Housing Opportunities for Persons with AIDS. A HUD program that pays for housing and support services for people living with HIV/AIDS and their families
- ❑ 90% is allocated to eligible states and metropolitan areas on a formula basis. 108 jurisdictions in 2002
- ❑ 10% is available through a competitive process to states that are not otherwise eligible, and for Special Projects of National Significance (SPNS)

# **Continuum of Care Activities**

- ❑ **Prevention, outreach and assessment** to identify the needs of homeless individuals or families and to link participants to appropriate facilities and services.
- ❑ **Emergency shelter** to provide safe alternatives to the streets and referrals to service providers and housing opportunities.
- ❑ **Transitional housing** with supportive services that are appropriate to the problems faced by the persons or families not prepared to live on their own. Such services may involve job training, job placement, substance abuse treatment, short-term mental health services, and independent living skills.
- ❑ **Permanent housing**, with or without supportive services.

# **Supportive Housing Program**

Designed to promote the development of housing and services that assist homeless persons to live as independently as possible.

Eligible activities include:

- Transitional Housing
- Permanent Housing for Homeless Persons with Disabilities
- Supportive Services Only
- Safe Havens
- Innovative Supportive Housing

# **Shelter Plus Care (S+C)**

- ❑ A national grant program providing rental assistance to homeless individuals who have disabilities (primarily serious mental illness, chronic substance abuse, and disabilities resulting from HIV/AIDS) and their families.
- ❑ The supportive services are provided as a \$ for \$ match by participating local service providers.
- ❑ Renewals are now on an annual basis only.
- ❑ Allows services for non-documented residents.

# **Section 8 Moderate Rehabilitation Single Room Occupancy (SRO)**

- ❑ A national program providing project-based rental assistance to homeless people residing in privately-owned rehabilitated Single Room Occupancy properties.
- ❑ A minimum of \$3,000 of rehabilitation work per SRO unit to meet HUD's housing quality standards is required.
- ❑ SRO defined as a studio or one-bedroom apartment

# **Section 811 Program**

## **Supportive Housing for Persons with Disabilities**

- ❑ Intended to enable people with disabilities to live independently in the community. The program targets physical and mental health disabilities.
- ❑ Funds are made available on a state-by-state basis and are allocated based on population.
- ❑ Provides financing to non-profit organizations for construction, acquisition, or rehabilitation. Funds need not be repaid if the project is maintained for 40 years as affordable housing.
- ❑ Project-based rental assistance subsidizes tenant rents for a minimum of five years.

# **Section 8**

Section 8 certificate and voucher programs offer rental subsidies to low-income households. This bridges the gap between what landlords charge and what tenants can afford. There are many Section 8 programs. Regulations include the following:

- Housing must meet federal housing quality and suitability standards
- Housing must be privately owned or owned by a public housing authority (PHA)
- Rents must not exceed HUD-defined maximums
- Tenants may move and still retain their subsidies
- May be project-based and assist homeownership

## **Section 8**

- ❑ Tenant pays a share of the rent not to exceed the highest of:
  - 30% of the household's monthly adjusted income
  - 10% of the household's monthly gross
  - the portion of welfare designated for housing cost
- ❑ The federal government, through a PHA, pays the landlord the difference between what is owed and what the tenant pays, provided the owner's rent may not exceed the HUD Fair Market Rent (FMR)
- ❑ Section 8 payment will fluctuate with changes in the tenant's income

# **Housing Opportunities for Persons with Disabilities (Mainstream Program)**

Created in 1997, this lottery program utilizes 50% of the funds originally earmarked for Section 811. Public housing authorities and nonprofit agencies may apply. It operates like a Section 8 program. Its goals are to:

- Allow individuals and families their choice of affordable private housing
- Create a coordinated approach to housing and community development
- Provide rental vouchers and certificates to special needs populations

# **Low Income Housing Tax Credit Program**

- ❑ A program of the Treasury Department, administered by state finance agencies.
- ❑ Allows dollar-for-dollar reduction of federal income tax for 10 years to qualified owners or investors through a limited partnership.
- ❑ This is the primary federal resource for developing low-income housing.
- ❑ Very complicated program, financial reporting requirements are cumbersome.

# Allowable Activities

Program Name	Acquisition & Construction	Operating Costs	Support Services	Rental Subsidy
CDBG	✓	✓	✓	
ESG	Rehab Only	✓	✓	
HOME	✓			✓
HOPWA	✓	✓	✓	✓
Sec. 811	✓	✓		
LIHTC	✓	Capitalized Reserves	Capitalized Reserves	Capitalized Reserves

# **Other Funding Options**

## **State and Local Resources**

- ❑ State Housing Finance Agency/Housing Trust Fund
- ❑ Local property tax levy, REET tax, general funds

## **USDA Rural Housing Service**

- ❑ Federal support to increase housing opportunities in rural communities for low and moderate income residents, the disabled, and/or farm workers.

## **Private Philanthropy**

- ❑ Project-specific Capital Campaigns for raising private funds
- ❑ May include corporate grants, foundation giving, major donors, direct mail campaigns and special events

# Case Studies



The Lyon Building  
Genesee Housing



# The Lyon Building

A Partnership between  
Downtown Emergency  
Service Center and  
AIDS Housing of  
Washington

# **Collaboration was the key**

- ❑ Developer/owner
- ❑ Operator/service provider
- ❑ Mental health services
- ❑ Chemical abuse treatment
- ❑ Homeless services
- ❑ HIV/AIDS treatment and services

# **Development Process**

- ❑ After a 9-month community notification process, the project was proposed to be located on the site of an existing 280-unit high rise housing authority (HA) building
- ❑ New construction: residence on top of parking for tenants of both existing and new buildings
- ❑ AHW received SHP commitment for \$400,000 capital and \$1.2 operating/service subsidy
- ❑ NIMBY: HA tenants opposed addition of 40 more special-needs clients on the same site

# **Development Process**

- ❑ County government acquired Lyon Building (built 1910) for construction of bus tunnel
- ❑ RFP process to purchase for appraised value of \$1.5 million (land costs) (1995)
- ❑ Building had 12 office tenants with no leases - relocation required
- ❑ 60,000 sq. ft. building: in order to make it work financially, we needed to create 64 units and retain street-front retail spaces
- ❑ AHW's proposal was selected because it proposed housing fewer tenants

# Building

- ❑ Conversion of an existing historic 6-story office building
- ❑ Completed and opened in September 1997
- ❑ Amenities include staff office space, group rooms, dining area, kitchen, and living room
- ❑ Retail leases include two 1,800 sq. ft. store fronts, roof-top cell phone antennae, and overnight storage for a neighborhood espresso cart
- ❑ Basement leased as a drop-in mental health center for homeless

# **Not a Solo Act**

- ❑ Partnership between AIDS Housing of Washington (AHW) and Downtown Emergency Service Center (DESC)
- ❑ AHW experienced developer and DESC largest homeless provider in Washington State
- ❑ DESC: licensed mental health and substance abuse agency and manager of 156 units of supportive housing for chronically homeless individuals

# **Sale of LIHTC**

- ❑ AHW solicited proposals for purchase of Lyon Building's low-income and historic tax credits
- ❑ Proposals from two local banks, NEF, ESIC and FannieMae
- ❑ Developed Net Present Value calculations for 5 proposals and allowed a second submission
- ❑ AHW's goal was to maximize net proceeds from tax credits to help fund operating and service reserves

## Sources of funding \$9,527,784

HOPWA - City of Seattle	957,389
HUD Supportive Housing Program	400,000
City of Seattle Housing Levy	1,680,341
WA State Housing Trust Fund	1,000,000
Low-Income Housing Tax Credits	3,165,000
Historic Tax Credits	1,200,000
Private contributions	1,125,054

## Uses of funding \$9,527,784

Land and building acquisition	1,535,323
Construction costs	6,832,363
Furniture, fixtures, and equipment	247,349
Fundraising and organizational fees	313,097
Operating and service reserves	599,652

# **Development Process**

- ❑ Tax credit investor - US Bancorp
- ❑ Bridge financing - Washington Mutual Bank
- ❑ Project and construction management by AHW - Lorig Associates (private developer)

# **Admission**

## **Every applicant must have**

- ❑ A case manager
- ❑ Proof of homelessness or eminent risk of homelessness
- ❑ Income below 30% of median income

## **Priority**

- 1st - AIDS disabled and mentally ill (may also be chemically affected)
- 2nd - AIDS disabled and chemically affected *or* HIV+, mentally ill, and chemically affected

# Budget 2001

❑ Operations	\$248,700
❑ Support services	<u>423,700</u>
❑ Total	\$672,400
❑ Per unit/per resident/ per year	<u>(64 units)</u> \$10,506/unit

Sources include: Tenant rents, commercial rents, Section 8 (SRO), SHP (services only), and HOPWA

# Staffing

- ❑ The building is staffed 24 hours with at least two staff per shift
- ❑ There are a total of 16 FTE staff including:
  - 1 project manger
  - 4 clinical support specialists
  - 6 residential counselors
  - 3 on-call residential counselors
  - 2 janitorial/maintenance staff

# **Program**

- ❑ Permanent supportive housing
- ❑ On-site nightly dinner
- ❑ AA/NA groups
- ❑ Access to needle exchange programs

# Evaluation Outcomes

- ❑ HOPWA SPNS-funded evaluation by University of Washington
- ❑ Success linked to ongoing engagement with case manager
- ❑ Continuity of primary care provider
- ❑ Greater success with tenants sicker with HIV than HIV+

# Genesee Housing



# **Not a Solo Act**

- ❑ **AIDS Housing of Washington** - Developer of 131 units of housing for people with AIDS, including 2 - 811's
- ❑ **Housing Resources Group** - Developer and operator of over 2,000 low-income housing units, including 6 projects for special needs populations in partnership with other nonprofits
- ❑ **Seattle Housing Authority** - Hope VI redevelopment of a 475-unit garden community that includes 85 disabled resident households.

# **Project Overview**

- ❑ A 50-unit project with 22 units set aside for disabled residents and funded by HUD's Section 811 Program
- ❑ One unit will be reserved for a resident manager, who may also be disabled
- ❑ The 22 disabled units will be targeted for households with incomes below 30% of area median
- ❑ The remaining units will be rented to households with incomes at or below 50% of area median
- ❑ Some units will be transitional housing for families
- ❑ The non-disabled units will have project-based Section 8 certificates for additional rent subsidy

# **Project Financing**

- ❑ The 811 Program funding includes both a Capital Advance and a 5-year operating subsidy (PRAC)
- ❑ AHW will also access Seattle's HOPWA formula funds for the AIDS set-aside disabled units
- ❑ 28 units will be financed by 9% LIHTC credits, bank financing, and project-based Section 8's through the Seattle Housing Authority
- ❑ Funding applied to the whole project includes:
  - Private fundraising
  - City of Seattle Housing Levy

## Sources of funding \$7,497,000

Taxable Loan	1,229,000
Tax credit investor equity	2,373,000
Development fee loan	407,000
HUD 811 funds	1,958,500
Capital Campaign	400,500
HOPWA	500,000
City of Seattle Housing Levy	629,000

## Uses of funding \$7,050,000

Site Acquisition	280,000
Construction costs	5,415,494
Soft costs: construction	771,783
Financing	274,546
Organizational	755,177

# **Community Notification**

- ❑ One of the most diverse communities in Seattle
- ❑ 10 languages spoken - translation required for all materials and meetings
- ❑ Neighborhood advisory committee convened that consists primarily of disabled residents

# **Services**

- ❑ Tenants will need ability to live independently
- ❑ Case management will be required for all 811 tenants
- ❑ Services will be arranged and coordinated by community-based case management agencies

# Issues in Blending Funding from Multiple Sources



# **Issues in Blending Funding**

- ❑ Statutory requirements
- ❑ Program expectations
- ❑ Subsidy layering
- ❑ Affordability
- ❑ Tenant eligibility
- ❑ Support service delivery

# **Statutory Requirements**

- ❑ HOPWA: 10-year commitment to house low-income persons with HIV/AIDS if funds used for rehabilitation or new construction
- ❑ SRO Mod Rehab: Minimum \$3,000 upgrade to each unit. 10-year commitment.
- ❑ SHP: \$ for \$ match up to \$400,000 maximum capital award. 20-year commitment to housing homeless/formerly homeless.
- ❑ ESG: can only be used for rehabilitation, not new construction
- ❑ Section 811: 40-year commitment to housing disabled. Maximum size of project is 14 units, plus a resident manager's unit.
- ❑ LIHTC: Many restrictions and requirements due to partnership arrangement and tax impacts, e.g. 15-year commitment to households with certain target incomes, annual re-certification of tenant incomes

# Program Expectations

- ❑ McKinney-Vento Homeless Programs are intended to serve homeless and formerly homeless and assist them in gaining life skills and achieving long-term housing stability.
- ❑ S+C can serve any disabled homeless person, but its primary target is those living with mental illness, chemical addiction, and/or HIV/AIDS.
- ❑ Section 811 housing is intended for disabled persons who are able to live independently with little to no on-site support. (HIV-positive status provides a presumptive disability for Section 811 and S+C.)
- ❑ HOPWA is intended to be the “payer of last resort,” so HUD looks for leveraging of other federal, state and local funds in all developments.
- ❑ LIHTC investors expect to see an operating budget that will demonstrate positive cash flow for the full 40-year life of the project.

# Subsidy Layering

- ❑ The Low Income Housing Tax Credit program has special requirements and restrictions because it offers the investor(s) credits against their federal income tax liability. All impacts must be evaluated in advance.
- ❑ Most federal funds will impact the “basis” upon which the amount of credits are calculated. They must be structured as loans not grants.
- ❑ Some tenant rental subsidies have been exempted from this impact on basis, such as Section 8 and HOPWA, but not SHP operating support.
- ❑ Developer must indicate the type of housing, transitional or permanent, in the initial LIHTC application. It is difficult to change this once the credits have been awarded.
- ❑ Although Sections 811 and 202 have been approved for combining with LIHTC no guidance has been written to resolve the conflict in ownership requirements: partnership (LIHTC) vs. single-asset corporation (811).

# Affordability

% AMI	Annual Income	30% for rent	Actual Rent	FMR	Subsidy Amount	Annual Need
100 %	40,000	1,000	800	NA	NA	NA
60 %	24,000	600	600	600	0	0
50 %	20,000	500	600	600	100	1,200
40 %	16,000	400	600	600	200	2,400
30 %	12,000	300	600	600	300	3,600
15 %	6,000	150	600	600	450	5,400

# **Tenant Eligibility**

- ❑ SHP has a very strict definition of homelessness. If a HUD audit finds ineligible tenants, then subsidy amounts must be refunded to HUD.
- ❑ SHP permanent housing is restricted to homeless persons who are disabled, while there is no disability requirement for transitional housing.
- ❑ Tenants in HOPWA-funded programs must be low-income and have demonstrated HIV or AIDS status, but homelessness is not an issue.
- ❑ All tenants in Shelter Plus Care must be homeless and disabled or impacted by mental health, substance use and/or HIV/AIDS issues.
- ❑ SHP, S+C, & HOPWA do not require documentation of resident status.
- ❑ Tenants in LIHTC-funded units must meet targeted income guidelines or the tax credit benefit to the investor(s) is impacted.

# **Support Service Delivery**

- ❑ The presumed support service needs of the tenants must be assessed prior to application for capital funding. Ideally, the program plan is developed before determining the size and design of the building.
- ❑ If support services are to be provided on site, then consult relevant service providers while still in the preliminary design phase to determine what their needs for office/service delivery space might be.
- ❑ The single greatest concern in property management is behavioral health (mental illness and chemical addiction) not medical issues.
- ❑ In set-aside and scattered-site models, access to a case manager or care coordinator to help avert or resolve individual tenant issues is a top priority of owners/property managers.
- ❑ Access to services is a critical factor in determining a project's location if the model of care is supportive housing or the tenants will be disabled.



# Financing Operations & Services

# **Funding Operations & Services**

- ❑ Development funds are relatively easy to obtain in most metropolitan areas
- ❑ Operating subsidies are difficult to obtain everywhere
- ❑ Even for programs that offer operating funds, it is very likely that at least a portion of the operating and/or service delivery costs will need to be covered by agency private fundraising
- ❑ Most LIHTC project underwriters require a 10-year commitment of operating subsidy to get capital funds

# **Funding Operations & Services**

## **Federal, State and Local Resources**

- ❑ Most HUD programs have operating/service components
- ❑ State Housing Trust Funds and local general funds
- ❑ LIHTC allows capitalized reserves for operating and service costs

## **Private Fundraising**

- ❑ Individual donors respond most favorably to requests to help PEOPLE
- ❑ Corporations and foundations better understand infrastructure needs

## **Collaborations with Other Service Systems**

- ❑ Public health, mental health, chemical dependency, health care for the homeless, employment and training, food banks, and public transit

# **Issues in Project Operations**

- ❑ Program years and contract periods
- ❑ Start-up/rent-up activities
- ❑ Operating vs. support service activities
- ❑ Memoranda of understanding
- ❑ Data collection and reporting
- ❑ Support service eligibility and delivery
- ❑ Property management

# **Monitoring and Compliance**

- ❑ Statutory requirements
- ❑ Confidentiality
- ❑ Administrative costs
- ❑ Record keeping and audits
- ❑ Managing multiple corporate entities

# **Planning for the Long Term**

- ❑ Agency capacity and sustainability
- ❑ Asset management
- ❑ Project reserves

# **The End**

Please let me know if you think that I should add more detail anywhere or cut information presented. Thanks! xxo